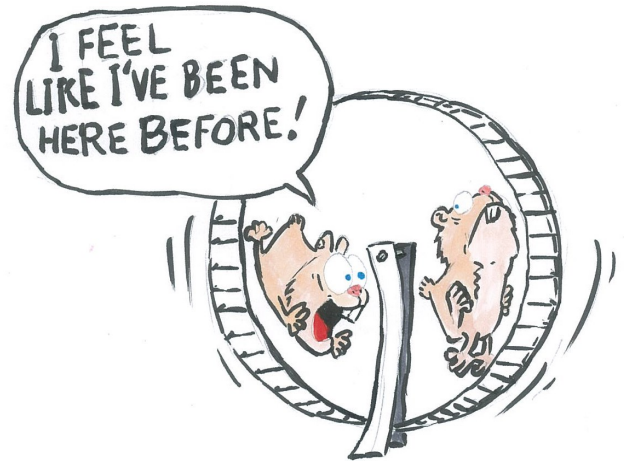


Economic Outlook

The Reserve Bank left the cash rate at 2% in November, suggesting that low interest rates, the lower Australian dollar and improving business conditions were setting the economy up for a recovery.

For economic recovery to become ingrained, Australia needs non-mining businesses to start investing again. It now appears that interest rates are not going to be the game changer as they have been in the past. So are businesses starting to invest again? BIS Shrapnel's *Economic Outlook* doesn't think so.

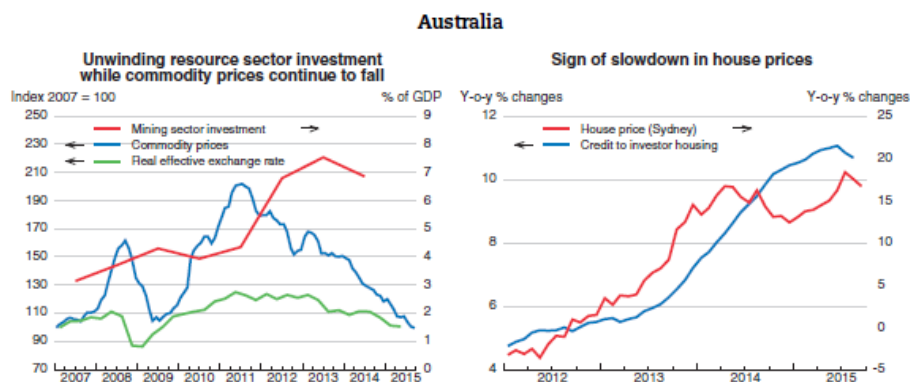


Improved confidence helps but it is not a sufficient condition for business to invest. It needs a recovery in demand, revenue and profits. This, combined with absorption of spare capacity sets the groundwork for higher business investment. However, apart from some notable exceptions, demand and profits for the majority of non-mining businesses has been weak since the GFC and are only expected to gradually improve over the next one to two years.

There's more pain to come as the economy absorbs the shock of falling mining investment. That will delay growth. Meanwhile, business investment will decline with any improvement in non-mining investment offset by a fall in mining investment.

The multi-stage recovery will take about two years. Businesses will need some certainty around demand and prices before they start to re-invest.

So let's not get ahead of ourselves. According to BIS Shrapnel there is a long and difficult road ahead.



Source: OECD Economic Outlook 98 database; Reserve Bank of Australia; Australian Bureau of Statistics; CoreLogic / RP Data.
 StatLink <http://dx.doi.org/10.1787/888933296025>

BIS Shrapnel's *Economic Outlook* service has been running for over 40 years and is Australia's premium source of independent economic analysis and commentary.

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